Risk Factors Comparison 2024-02-23 to 2023-02-24 Form: 10-K

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An investment in our securities involves risks. Stockholders should carefully consider the risks described below, together with all other information contained in this Annual Report on Form 10- K, before making any purchase or sale decisions regarding our securities. If any of the following risks actually occur, our business, financial condition or operating results may be harmed. In that case, the trading price of our securities may decline, and stockholders may lose part or all of their investment in our securities. Risks Applicable to Our Business: The ongoing COVID- 19 pandemic and measures intended to prevent its spread could have a material adverse effect on our business, results of operations and financial condition, and such effects will depend on future developments, which are highly uncertain and are difficult to predict. Global health concerns relating to the COVID- 19 outbreak and its variants and related government actions taken to reduce the spread of the virus **and changes in customer, employer and employee behavior** have weighed on **and may continue to effect** the macroeconomic environment in our New Jersey / New York metropolitan market trade area ~~,~~ and **have caused** ~~the outbreak has significantly increased~~ economic uncertainty and reduced economic activity. **Given** ~~The outbreak has resulted in authorities implementing numerous measures to try to mitigate the virus, and such measures, even as certain of them~~ - **the** ~~have been eased~~ **ongoing and dynamic nature of the pandemic** , ~~have~~ **it is difficult to predict the full** ~~impacted~~ -- **impact** ~~consumer and~~ **of the COVID- 19 pandemic on our** business ~~spending. In addition, the pandemic has changed consumer~~ and ~~employee behavior, such as through the rise in working from home, in ways~~ that ~~may negatively impact the overall economy~~ of ~~our Metropolitan New York economy and the businesses of our customers. The United States government has taken steps to attempt to mitigate some of the more severe anticipated economic effects of the virus, including the passage of the CARES Act and the Economic Aid Act, but there can be no assurance that such steps will be effective or~~ **our** ~~achieve their desired results in a timely fashion. The outbreak has adversely impacted and is likely to further adversely impact our workforce and operations and the operations of our borrowers,~~ clients ~~and business partners. In particular~~ , **employees** ~~we may experience financial losses due to a number of operational factors impacting us or our borrowers, clients or business partners, including but not limited: o to credit losses resulting from financial stress being experienced by our borrowers as a result of the outbreak~~ and ~~related governmental actions, particularly in the hospitality, energy and retail industries, but across other industries as well. As of December 31, 2022, the bank had no loans on deferrals; o declines in collateral values; o~~ third **-** party **service** ~~disruptions, including outages at network~~ providers ~~and other suppliers; o increased cyber and payment fraud risk, as cybercriminals attempt to profit from the disruption, given increased online and remote activity; and o operational failures due to changes in our normal business practices necessitated by the outbreak and related governmental actions. These factors may remain prevalent for a significant period of time and may continue to adversely affect our business, results of operations and financial condition even after the COVID- 19 outbreak has subsided~~ . The extent **of such an** ~~to which the coronavirus outbreak impacts~~ - **impact** ~~our business, results of operations and financial condition~~ will depend on future developments, which are highly uncertain ~~and are difficult to predict, including, but not limited to, the duration and spread of the outbreak, its severity, new variants of the virus and their impact, the actions to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions resume~~ . ~~Even after the COVID~~ - **21** ~~19 outbreak has subsided, we may continue to experience materially adverse impacts to our business as a result of the virus' s global economic impact, including the availability of credit, adverse impacts on our liquidity and any recession that has occurred or may occur in the future. There are no comparable recent events that provide guidance as to the effect the spread of COVID- 19 as a global pandemic may have, and, as a result, the ultimate impact of the outbreak is highly uncertain and subject to change. We do not yet know the full extent of the impacts on our business, our operations or the global economy as a whole. However, the effects could have a material impact on our results of operations and heighten many of our known risks described in this " Risk Factors " section.- 19~~ - Our growth- oriented business strategy could be adversely affected if we are not able to attract and retain skilled employees or if we lose the services of our senior management team. We may not be able to successfully manage our business as a result of the strain on our management and operations that may result from growth. Our ability to manage growth will depend upon our ability to continue to attract, hire and retain skilled employees. The loss of members of our senior management team, including those officers named in the summary compensation table of our proxy statement, could have a material adverse effect on our results or operations and ability to execute our strategic goals. Our success will also depend on the ability of our officers and key employees to continue to implement and improve our operational and other systems, to manage multiple, concurrent client relationships and to hire, train and manage our employees. We may need to raise additional capital to execute our growth- oriented business strategy. In order to continue our growth, we will be required to maintain our regulatory capital ratios at levels higher than the minimum ratios set by our regulators. We can offer you no assurances that we will be able to raise capital in the future, or that the terms of any such capital will be beneficial to our existing security holders. In the event we are unable to raise capital in the future, we may not be able to continue our growth strategy. We have a significant concentration in commercial real estate loans. Our loan portfolio is made up largely of commercial real estate loans. These types of loans generally expose a lender to a higher degree of credit risk of non- payment and loss than do residential mortgage loans because of several factors, including dependence on the successful operation of a business or a project for repayment, and loan terms with a balloon payment rather than full amortization over the loan term. In addition, commercial real estate loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to one- to four- family residential mortgage loans. Underwriting and portfolio management activities cannot completely eliminate all risks related to these loans. Any significant failure to pay on time by our clients or a significant default by our clients would materially and adversely affect us. As of December 31, ~~2022~~ **2023** , we had $ 6. ~~2~~ **5** billion of commercial real estate loans (nonowner- occupied, owner- occupied ~~and~~ multifamily **and land**), including construction loans, which represented ~~76~~ **78** . ~~3~~ **1** % of loans receivable. Concentrations in commercial real estate are monitored by regulatory agencies and subject to scrutiny. Guidance from these regulatory agencies includes all commercial real estate loans, including commercial construction loans, in calculating our commercial real estate concentration, but excludes owner- occupied commercial real estate loans. Based on this regulatory definition, our commercial real estate loans represented ~~483~~ **463** % of the Bank' s Tier 1 capital plus the allowance for credit losses on loans. Loans secured by owner- occupied real estate are reliant on the operating businesses to provide cash flow to meet debt service obligations, and as a result may be more susceptible to the general impact on the economic environment affecting those operating companies as well as the real estate. The impact of the COVID- 19 pandemic and the development of remote work or hybrid work models on the metropolitan New York area commercial real estate market is uncertain, causing volatility in rents in certain core urban markets. Many other factors, including the exchange rate for the U. S. dollar, potential international trade tariffs, inflation and changes in federal tax laws affecting the deductibility of state and local taxes and mortgage interest could negatively impact our local economy and real estate market. Accordingly, it may be more difficult for commercial real estate borrowers to repay their loans in a timely manner, as commercial real estate borrowers' ability to repay their loans frequently depends on the successful development **and leasing** of their properties. The deterioration of one or a few of our commercial real estate loans could cause a material increase in our level of nonperforming loans, which would result in a loss of revenue from these loans and could result in an increase in the provision for credit losses and / or an increase in charge- offs, all of which could have a material adverse impact on our net income. We also may incur losses on commercial real estate loans due to declines in occupancy rates and rental rates, which may decrease property values and may decrease the likelihood that a borrower may find permanent financing alternatives. Any weakening of the commercial real estate market may increase the likelihood of default ~~of~~ **on** these loans, which could negatively impact our loan portfolio' s performance and asset quality. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, we could incur material losses. Any of these events could increase our costs, require management time and attention, and materially and adversely affect us.- ~~20~~ **22** - Federal banking agencies have issued guidance regarding high concentrations of commercial real estate loans within bank loan portfolios. The guidance requires financial institutions that exceed certain levels of commercial real estate lending compared with their total capital to maintain heightened risk management practices that address the following key elements: board and management oversight and strategic planning, portfolio management, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing, and maintenance of increased capital levels as needed to support the level of commercial real estate lending. If there is any deterioration in our commercial real estate portfolio or if our regulators conclude that we have not implemented appropriate risk management practices, it could adversely affect our business, and could result in the requirement to maintain increased capital levels. Such capital may not be available at that time and may result in our regulators requiring us to reduce our concentration ~~in~~ **on** commercial real estate loans. If we are limited in our ability to originate loans secured by commercial real estate, we may face greater risk in our loan portfolio. If, because of our concentration of commercial real estate loans, or for any other reasons, we are limited in our ability to originate loans secured by commercial real estate, we may incur greater risk in our loan portfolio. For example, we are and may continue to seek to further increase our growth rate in commercial and industrial loans, including both secured and unsecured commercial and industrial loans. Unsecured loans generally involve a higher degree of risk of loss than do secured loans because, without collateral, repayment is wholly dependent upon the success of the borrowers' businesses and personal guarantees. Secured commercial and industrial loans are generally collateralized by accounts receivable, inventory, equipment or other assets owned by the borrower and typically include a personal guaranty of the business owner. Compared to real estate, that type of collateral is more difficult to monitor, its value is harder to ascertain, it may depreciate more rapidly, and it may not be as readily saleable if repossessed. Therefore, we may be exposed to greater risk of loss on these credits. The nature and growth rate of our commercial loan portfolio may expose us to increased lending risks. Given the significant growth in our loan portfolio, many of our commercial real estate loans are unseasoned, meaning that they ~~were~~ originated relatively recently. As of December 31, ~~2022~~ **2023** , we had $ 5. ~~8~~ **9** billion in commercial real estate loans outstanding. Approximately ~~67~~ **64** . ~~4~~ **5** % of the loans, or $ 3. ~~9~~ **8** billion, **were** ~~had been~~ originated in the past three years. As a result, it may be difficult to predict the future performance of our loan portfolio. These loans may have delinquency or charge- off levels above our expectations, which could negatively affect our performance. The small- to medium- sized businesses that the Bank lends to may have fewer resources to weather a downturn in the economy, which may impair a borrower' s ability to repay a loan to the Bank that could materially harm our operating results. The Bank targets its business development and marketing strategy primarily to serve the banking and financial services needs of small- to medium- sized businesses. These small- to medium- sized businesses frequently have smaller market share than their competition, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete and may experience significant volatility in operating results. Any one or more of these factors may impair the borrower' s ability to repay a loan. In addition, the success of a small- to medium- sized business often depends on the management talents and efforts of one or two persons or a small group of persons, and the death, disability or resignation of one or more of these persons could have a material adverse impact on the business and its ability to repay a loan. Economic downturns and other events that negatively impact our market areas could cause the Bank to incur substantial credit losses that could negatively affect our results of operations and financial condition. Our ability to maintain our reputation is critical to the success of our business and the failure to do so may materially adversely affect our performance. Our reputation is one of the most valuable components of our business. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our clients and caring about our clients and associates. If our reputation is negatively affected ~~,~~ by the actions of our employees or otherwise, our business and, therefore, our operating results may be materially adversely affected. Anti- takeover provisions in our corporate documents and in New Jersey corporate law may make it difficult and expensive to remove current management. Anti- takeover provisions in our corporate documents and in New Jersey law may render the removal of our existing board of directors and management more difficult. Consequently, it may be difficult and expensive for our stockholders to remove current management, even if current management is not performing adequately.- ~~21~~ **23** - Competition in originating loans and attracting deposits may adversely affect our profitability. We face substantial competition in originating loans. This competition currently comes principally from other banks, savings institutions, mortgage banking companies, credit unions and other lenders, including online " fintech " companies. Many of our competitors enjoy advantages, including greater financial resources and higher lending limits, a wider geographic presence, more accessible branch office locations, the ability to offer a wider array of services or more favorable pricing alternatives, as well as lower origination and operating costs. This competition could reduce our net income by decreasing the number and size of loans that we originate and the interest rates we may charge on these loans. In attracting deposits, we face substantial competition from other insured depository institutions such as banks, savings institutions and credit unions, as well as institutions offering uninsured investment alternatives, including money market funds. Many of our competitors enjoy advantages, including greater financial resources, more aggressive marketing campaigns, better brand recognition and more branch locations. These competitors may offer higher interest rates than we do, which could decrease the deposits that we attract or require us to increase our rates to retain existing deposits or attract new deposits. We have also been active in competing for New York and New Jersey governmental and municipal deposits. As of December 31, ~~2022~~ **2023** , governmental and municipal deposits accounted for approximately $ ~~797~~ **745** . ~~6~~ **0** million in deposits. The governor of New Jersey has proposed that the state form and own a bank in which governmental and municipal entities would deposit their excess funds, with the state- owned bank then financing small businesses and municipal projects in New Jersey. Although this proposal is in the very early stages, should this proposal be adopted and a state- owned bank formed, it could impede our ability to attract and retain governmental and municipal deposits. Increased deposit competition could adversely affect our ability to generate the funds necessary for lending operations, which may increase our cost of funds. We also compete with non- bank providers of financial services, such as brokerage firms, consumer finance companies, insurance companies and governmental organizations, which may offer more favorable terms. Some of our non- bank competitors are not subject to the same extensive regulations that govern our operations. As a result, such non- bank competitors may have advantages over us in providing certain products and services. This competition may reduce or limit our margins on banking services, reduce our market share and adversely affect our earnings and financial condition. In addition, the banking industry in general faces competition for deposit, credit and money management products from non- bank technology firms, or fintech companies, which may offer products independently or through relationships with insured depository institutions. External factors, many of which we cannot control, may result in liquidity concerns for us. Liquidity risk is the potential that the Bank may be unable to meet its obligations as they come due, capitalize on growth opportunities as they arise, or pay regular dividends because of an inability to liquidate assets or obtain adequate funding on a timely basis, at a reasonable cost and within acceptable risk tolerances. Liquidity is required to fund various obligations, including credit commitments to borrowers, mortgage and other loan originations, withdrawals by depositors, repayment of borrowings, operating expenses, capital expenditures and dividend payments to shareholders. Liquidity is derived primarily from deposit growth and retention; principal and interest payments on loans; prepayment and maturities of loans; principal and interest payments on investment securities; sale, maturity and prepayment of investment securities; net cash provided from operations, and access to other funding sources. In addition, in recent periods we have substantially increased our use of alternate deposit origination channels, such as brokered deposits, including reciprocal deposit services, and internet listing services.- ~~22~~ **24** - Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity due to market factors or an adverse regulatory action against us **, as well as events affecting other market participants, such as failures of other insured depository institutions** . In addition, our ability to use alternate deposit origination channels could be substantially impaired if we fail to remain " well capitalized ". Our ability to borrow could also be impaired by factors that are not specific to us, such as a severe disruption of the financial markets or negative views and expectations about the prospects for the financial services industry as a whole. Furthermore, regional and community banks generally have less access to the capital markets than do the national and super- regional banks because of their smaller size and limited analyst coverage. Any decline in available funding could adversely impact our ability to originate loans, invest in securities, meet our expenses, or fulfill obligations such as meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, results of operations and financial condition. Declines in the value of our investment securities portfolio may adversely impact our results. As of December 31, ~~2022~~ **2023** , we had approximately $ ~~634~~ **617** . ~~9~~ **2** million in **fair value of** investment securities, **all of which are classified as** available- for- sale. We may be required to record ~~impairment charges~~ **an allowance for credit** on our investment securities if they suffer a decline in value below their amortized cost basis that is considered credit related. Numerous factors, including lack of liquidity for re-sales of certain investment securities, absence of reliable pricing information on investment securities, adverse changes in business climate, adverse actions by regulators, or unanticipated changes in the competitive environment could have a negative effect on our investment portfolio in future periods. If an impairment charge is significant enough, it could affect the ability of the Bank to upstream dividends to the Company, which could have a material adverse effect on our liquidity and our ability to pay dividends to shareholders and could also negatively impact our regulatory capital ratios. The Bank' s ability to pay dividends is subject to regulatory limitations, which, to the extent that the Company requires such dividends in the future, may affect the Company' s ability to honor its obligations and pay dividends. As a bank holding company, the Company is a separate legal entity from the Bank and its subsidiaries and does not have significant operations. We currently depend on the Bank' s cash and liquidity to pay our operating expenses and to fund dividends to shareholders. We cannot assure you that in the future the

Bank will have the capacity to pay the necessary dividends and that we will not require dividends from the Bank to satisfy our obligations. Various statutes and regulations limit the availability of dividends from the Bank. It is possible, depending upon our and the Bank' s financial condition and other factors, that bank regulators could assert that payment of dividends or other payments by the Bank are an unsafe or unsound practice. In the event that the Bank is unable to pay dividends, we may not be able to service our obligations, as they become due, or pay dividends on our capital stock. Consequently, the inability to receive dividends from the Bank could adversely affect our financial condition, results of operations, cash flows and prospects. In addition, as described under " Capital Adequacy Guidelines, " banks and bank holding companies are required to maintain a capital conservation buffer on top of minimum risk- weighted asset ratios. The capital conservation buffer is 2. 5 %. Banking institutions which do not maintain capital in excess of the capital conservation buffer will face constraints on the payment of dividends, equity repurchases, and compensation based on the amount of the shortfall. Accordingly, if the Bank fails to maintain the applicable minimum capital ratios and the capital conservation buffer, distributions to the Company may be prohibited or limited. We may not be able to pay dividends on our common stock if we have not made required dividend payments on our outstanding, noncumulative preferred stock. We have a series of outstanding perpetual preferred stock, our 5. 25 % Fixed- Rate Reset Non- Cumulative Perpetual Preferred Stock, Series A. The rights of the preferred stockholders to receive dividends are senior to the rights of our common holders, although the preferred dividend rights are non- cumulative. Therefore, unless all dividends due on our outstanding preferred stock have been declared and paid for the most recent dividend period provided for under the terms of the preferred stock, we may not pay a dividend on our common stock or repurchase shares of our common stock during that period.- ~~23~~ **25** - We may incur impairment to goodwill. We review our goodwill at least annually. Significant negative industry or economic trends, reduced estimates of future cash flows or disruptions to our business, could indicate that goodwill might be impaired. Our valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and to rely on projections of future operating performance. We operate in a competitive environment and projections of future operating results and cash flows may vary significantly from actual results. Additionally, if our analysis results in an impairment to our goodwill, we would be required to record a non- cash charge to earnings in our financial statements during the period in which such impairment is determined to exist. Any such charge could have a material adverse effect on our results of operations. We have grown and may continue to grow through acquisitions. Since January 1, 2019, we have acquired GHB, BoeFly and BNJ. To be successful as a larger institution, we must successfully integrate the operations and retain the clients of acquired institutions, attract and retain the management required to successfully manage larger operations, and control costs. Future results of operations will depend in large part on our ability to successfully integrate the operations of the acquired institutions and retain the clients of those institutions. If we are unable to successfully manage the integration of the separate cultures, client bases and operating systems of the acquired institutions, and any other institutions that may be acquired in the future, our results of operations may be adversely affected. In addition, to successfully manage substantial growth, we may need to increase noninterest expenses through additional personnel, leasehold and data processing costs, among others. In order to successfully manage growth, we may need to adopt and effectively implement policies, procedures and controls to maintain credit quality, control costs and oversee our operations. No assurance can be given that we will be successful in this strategy. We may be challenged to successfully manage our business as a result of the strain on management and operations that may result from growth. The ability to manage growth will depend on our ability to continue to attract, hire and retain skilled employees. Success will also depend on the ability of officers and key employees to continue to implement and improve operational and other systems, to manage multiple, concurrent client relationships and to hire, train and manage employees. Finally, substantial growth may stress regulatory capital levels, and may require us to raise additional capital. No assurance can be given that we will be able to raise any required capital, or that ~~it~~ **we** will be able to raise capital on terms that are beneficial to stockholders. **- 26-** Attractive acquisition opportunities may not be available to us in the future. We expect that other banking and financial service companies, many of which have significantly greater resources than us, will compete with us in acquiring other target companies if we pursue such acquisitions. This competition could increase prices for potential acquisitions that we believe are attractive. Also, acquisitions are subject to various regulatory approvals. If we fail to receive the appropriate regulatory approvals, we will not be able to consummate an acquisition that we believe is in our best interests. Among other things, our regulators will consider our capital, liquidity, profitability, regulatory compliance and levels of goodwill when considering acquisition and expansion proposals. Any acquisition could be dilutive to our earnings and shareholders' equity per share of our common stock. Hurricanes or other adverse weather or health related events could negatively affect our local economies or disrupt our operations, which would have an adverse effect on our business or results of operations. Hurricanes and other weather events can disrupt our operations, result in damage to our properties and negatively affect the local economies in which we operate. In addition, these weather events may result in a decline in value or destruction of properties securing our loans and an increase in delinquencies, foreclosures and credit losses. Finally, health related events, such as a viral pandemic, could adversely affect the business of our clients and our local economies, thereby adversely affecting our results of operations. ~~- 24-~~ The Company will be subject to heightened regulatory requirements when total assets exceed $ 10 billion. The Company' s total assets were $ 9. ~~6~~ **856** billion as of December 31, ~~2022~~ **2023** . Banks with assets in excess of $ 10 billion are subject to requirements imposed by the Dodd- Frank Act and its implementing regulations, including: the examination authority of the Consumer Financial Protection Bureau to assess compliance with Federal consumer financial laws, imposition of higher FDIC premiums, and reduced debit card interchange fees, all of which increase operating costs and reduce earnings. As the Company approaches $ 10 billion in total consolidated assets, additional costs have been incurred to prepare for the implementation of these imposed requirements. The Company may be required to invest more significant management attention and resources to evaluate and continue to make any changes necessary to comply with the new statutory and regulatory requirements under the Dodd- Frank Act. Further, Federal financial regulators may require accelerated actions and investments to prepare for compliance before $ 10 billion in total consolidated assets is exceeded, and may suspend or delay certain regulatory actions, such as approving a proposed merger, if preparations are deemed inadequate. Upon reaching this threshold, the Company faces the risk of failing to meet these requirements, which may negatively impact results of operations and financial condition. ~~Reforms to and uncertainty regarding LIBOR may adversely affect the business. In 2017, a committee of private- market derivative participants and their regulators convened by the Federal Reserve, the Alternative Reference Rates Committee, or " ARRC ", was created to identify an alternative reference interest rate to replace LIBOR. The ARRC announced Secured Overnight Financing Rate, or " SOFR ", a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities, as its preferred alternative to LIBOR. The U. S. bank regulatory agencies have directed U. S. insured depository institutions to cease using LIBOR in new loan or other financial agreements effective December 31, 2021. Certain LIBOR maturity rates will no longer be published after December 31, 2021, with publication of the remaining maturity rates ending in 2023. The Federal Reserve Bank commenced publication of SOFR rates on April 2, 2018. The uncertainty as to the nature and effect of such reforms and actions may adversely affect the value of and return on the Company' s financial assets and liabilities that are based on or are linked to LIBOR, the Company' s results of operations or financial condition.~~ Risks Applicable to the Banking Industry Generally: **Recent events impacting the financial services industry. Recent events impacting the financial services industry, including the failures of Silicon Valley Bank, Signature Bank and First Republic Bank, have resulted in increased volatility and reduced valuations of equity and other securities of banks in the capital markets. In addition, the Federal Reserve, in order to combat inflation, has employed quantitative tightening in order to reduce the size of its balance sheet, resulting in increased competition and costs for bank deposits and an increased risk of an economic recession. These recent events have, and could continue to, increase competition for deposits and adversely impact the market price and volatility of the Company' s common stock. These recent events may also result in potentially adverse changes to laws or regulations governing banks and bank holding companies or result in the impositions of restrictions through supervisory or enforcement activities, including higher capital requirements, which could have a material impact on our business. We may be impacted by concerns regarding the soundness or creditworthiness of other financial institutions, which can cause substantial disruption within the financial markets and increased expenses. The cost of resolving the recent bank failures has caused the FDIC to issue additional special assessments and could cause the FDIC to increase premiums or issue additional special assessments in the future.- 27-** Our allowance for credit losses may not be adequate to cover actual losses. Like all financial institutions, we maintain an allowance for credit losses and to provide for loan defaults and nonperformance. The process for determining the amount of the allowance is critical to our financial results and condition. It requires difficult, subjective and complex judgments about the future, as well as the impact of national and regional economic conditions on the ability of our borrowers to repay their loans. If our judgment proves to be incorrect, our allowance may not be sufficient to cover losses in our loan portfolio. Further, state and federal regulatory agencies, as an integral part of their examination process, review our loans and allowance and may require an increase in our allowance for credit losses. Further increases to the allowance could adversely affect our earnings. Changes in interest rates, ~~including increases to address inflation,~~ as well as other actions the Federal Reserve may take ~~to address inflation,~~ may adversely affect our earnings and financial condition. Our net income depends primarily upon our net interest income. Net interest income is the difference between interest income earned on loans, investments and other interest- earning assets and the interest expense incurred on deposits and borrowed funds. The level of net interest income is primarily a function of the average balance of our interest- earning assets, the average balance of our interest- bearing liabilities, and the spread between the yield on such assets and the cost of such liabilities. These factors are influenced by both the pricing and mix of our interest- earning assets and our interest- bearing liabilities which, in turn, are impacted by such external factors as the local economy, competition for loans and deposits, the monetary policy of the Federal Open Market Committee of the Federal Reserve Board of Governors (the " FOMC "), and market interest rates. A sustained increase in market interest rates, such as has been in effect ~~during~~ **since** the ~~second~~ **first** half of ~~2022~~ **2023** , could adversely affect our earnings if our cost of funds increases more rapidly than our yield on our earning assets and compresses our net interest margin. In addition, the economic value of portfolio equity would decline ~~if~~ **as** interest rates ~~increases~~ **increase** . ~~- 25-~~ Different types of assets and liabilities may react differently, and at different times, to changes in market interest rates. We expect that we will periodically experience gaps in the interest rate sensitivities of our assets and liabilities. That means either our interest- bearing liabilities will be more sensitive to changes in market interest rates than our interest- earning assets, or vice versa. When interest- bearing liabilities mature or re- price more quickly than interest- earning assets, an increase in market rates of interest could reduce our net interest income. Likewise, when interest- earning assets mature or re- price more quickly than interest- bearing liabilities, falling interest rates could reduce our net interest income. We are unable to predict changes in market interest rates, which are affected by many factors beyond our control, including inflation, deflation, recession, unemployment, money supply, domestic and international events and changes in the United States and other financial markets. We also attempt to manage risk from changes in market interest rates, in part, by controlling the mix of interest rate sensitive assets and interest rate sensitive liabilities. However, interest rate risk management techniques are not exact. A rapid increase or decrease in interest rates could adversely affect our results of operations and financial performance. In addition to increases in interest rates, the FOMC has also changed its stance on monetary policy as an additional effort to reduce inflation. Beginning in the second half of 2022, the FOMC began reducing its balance sheet, implementing a program of quantitative tightening to reduce the overall money supply. As a result, we may face greater competition for deposits, resulting in a higher cost of funds and a reduced net interest margin, as well as greater liquidity risk to continue to fund our loan originations. We are unable to predict the duration and ultimate impact of the FOMC' s quantitative tightening program. However, if the program significantly tightens the nation' s money supply, it may adversely affect our results of operations and financial performance. **- 28-** The banking business is subject to significant government regulations. We are subject to extensive governmental supervision, regulation and control. These laws and regulations are subject to change and may require substantial modifications to our operations or may cause us to incur substantial additional compliance costs. In addition, future legislation and government policy could adversely affect the commercial banking industry and our operations. Such governing laws can be anticipated to continue to be the subject of future modification. Our management cannot predict what effect any such future modifications will have on our operations. In addition, the primary focus of Federal and state banking regulation is the protection of depositors and not the shareholders of the regulated institutions. For example, implementation of all required regulations under the Dodd- Frank Act may result in substantial new compliance costs. The Dodd- Frank Act was signed into law on July 21, 2010. Generally, the Dodd- Frank Act is effective the day after it was signed into law, but different effective dates apply to specific sections of the law, many of which will not become effective until various Federal regulatory agencies have promulgated rules implementing the statutory provisions. Ultimately, final implementation the Dodd- Frank Act could have a material adverse impact either on the financial services industry as a whole, or on our business, results of operations and financial condition. ~~In addition, in order to implement Basel III and certain additional capital changes required by the Dodd- Frank Act, on July 9, 2013, the Federal banking agencies, including the FDIC, the Federal Reserve and the Office of the Comptroller of the Currency, approved, as an interim final rule, the regulatory capital requirements for U. S. insured depository institutions and their holding companies. This regulation requires financial institutions to maintain higher capital levels and more equity capital.~~ These provisions, as well as any other aspects of current or proposed regulatory or legislative changes to laws applicable to the financial industry, may impact the profitability of our business activities and may change certain of our business practices, including the ability to offer new products, obtain financing, attract deposits, make loans, and achieve satisfactory interest spreads, and could expose us to additional costs, including increased compliance costs. These changes also may require us to invest significant management attention and resources to make any necessary changes to operations in order to comply and could therefore also materially and adversely affect our business, financial condition and results of operations. The ultimate effect of certain of these changes on the financial services industry in general, and us in particular, is uncertain at this time.- ~~26~~ **29** - The laws that regulate our operations are designed for the protection of depositors and the public, not our shareholders. The federal and state laws and regulations applicable to our operations give regulatory authorities extensive discretion in connection with their supervisory and enforcement responsibilities, and generally have been promulgated to protect depositors and the Deposit Insurance Fund and not for the purpose of protecting shareholders. These laws and regulations can materially affect our future business. Laws and regulations now affecting us may be changed at any time, and the interpretation of such laws and regulations by bank regulatory authorities is also subject to change. We can give no assurance that future changes in laws and regulations or changes in their interpretation will not adversely affect our business. Legislative and regulatory changes may increase our cost of doing business or otherwise adversely affect us and create competitive advantages for non- bank competitors ~~. The potential impact of changes in monetary policy and interest rates may negatively affect our operations. Our operating results may be significantly affected (favorably or unfavorably) by market rates of interest that, in turn, are affected by prevailing economic conditions, by the fiscal and monetary policies of the United States government and by the policies of various regulatory agencies. Our earnings will depend significantly upon our interest rate spread (i. e., the difference between the interest rate earned on our loans and investments and the interest raid paid on our deposits and borrowings). Like many financial institutions, we may be subject to the risk of fluctuations in interest rates, which, if significant, may have a material adverse effect on our operations~~ . We cannot predict how changes in technology will impact our business; increased use of technology may expose us to service interruptions or breaches in security. The financial services market, including banking services, is increasingly affected by advances in technology, including developments in: ● Telecommunications; ● Data processing; ● Automation; ● Internet- based banking, including personal computers, mobile phones and tablets; ● Debit cards and so- called " smart cards "; ● Remote deposit capture; ● Artificial Intelligence; ● Cryptocurrency; and ● Use of Blockchain. Our ability to compete successfully in the future will depend, to a certain extent, on whether we can anticipate and respond to technological changes. We offer electronic banking services for our consumer and business clients via our website, www. cnob. com, including Internet banking and electronic bill payment, as well as mobile banking by phone. We also offer check cards, ATM cards, credit cards, and automatic and ACH transfers. The successful operation and further development of these and other new technologies will likely require additional capital investments in the future. In addition, increased use of electronic banking creates opportunities for interruptions in service or security breaches, which could expose us to claims by clients or other third parties and damage our reputation. We cannot assure you that we will have sufficient resources or access to the necessary proprietary technology to remain competitive in the future, or that we will be able to maintain a secure electronic environment.